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STATEMENT FOR THE RECORD

BEFORE THE HOUSE WAYS AND MEANS COMMITTEE, TRADE SUBCOMMITTEE
HEARING ON THE PENDING FREE TRADE AGREEMENT WITH COLOMBIA

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Introduction

Chairman Brady, Ranking Member McDermott, members of the Trade Subcommittee, thank you for the opportunity to submit testimony today. On behalf of the California Cut Flower Commission (CCFC) and California's cut flower farmers, and in light of the possibility of the passage of a Colombia Free Trade Agreement, I thank you for this venue to explain how cut flower imports from Colombia have affected and will continue to affect domestic cut flower farms, speicifically California's flower farmers, which now make up almost 80% of U.S. cut flower production.

While the purpose of free trade with Colombia is to advance the United States' geopolitical interests in the region, it will have real and adverse affect on domestic cut flower farmers and their ability to compete with cheaper imports that benefit from lower labor costs, limited environmental and business regulations, duty free access and direct U.S. and Colombian government subsidies. Therefore, we ask Congress to consider the real and adverse effects of free trade on domestic cut flower growers and work with us to mitigate the problem before final passage of this trade agreement with Colombia.

First, allow me to explain the role of the CCFC and provide a profile of our industry. The CCFC is a state commission, created by the state legislature. The CCFC is overseen by the California Department of Food and Agriculture and is funded by assessments on our cut flower farms that gross sales above $500,000 dollars.

Based on our most recent survey, there are approximately 225 farms growing flowers and foliage throughout the state. In 2008, California's cut flower farms represented $314 million dollars farmgate value, down slightly from 2007's $328 million dollar value, with most losses reflected in rose and snapdragon sales.[1] Based on CCFC's 2008 Economic Impact Study, The Flower Factor, California's Floral Industry has a $10.3 billion annual overall impact on the state and generates more than 121,000 jobs. Specifically, California's flower farms employ over 7,500 people directly, but have a "ripple effect" that generates an additional 19,000 jobs for California. California's farms also currently generate $177,320 of taxes per day for a total of $64.7 million annually that help to fund vital state programs.[2]

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[1] USDA/National Agricultural Statistics Service, *California Agriculture Statistics(2009-2010)* at 35.
[2] CCFC, *The Flower Factor, 2008 California Cut Flower Economic Impact Study,* at 4-5 (Nov. 2008).

Impacts: Qualitative and Quantitative

In the face of increased import competition, California flower farms have extensively diversified their crop varieties to better compete. For example, California was known historically for its carnation production, but that was overtaken by cheaper imports. Many farms diversified to Chrysanthemums, but they too fell to import pressures. California may have been best known for its rose production in the 80's and early 90's, however the added incentives offered by the Andean Trade Preferences and Drug Eradication Act (ATPDEA) further exacerbated import pressures and left California farmers unable to compete any longer on that crop as well. Today, California cut flower farms are growing more high-end flowers such as several varieties of lilies, hydroponic gerbera daisies, tulips, protea, orchids, and hydroponic roses.

In the meantime, the California flower industry is aggressively working to remain competitive by offering different products than its foreign competitors. For example, California growers have been successful in their production of gerbera daisies and tulips. California's production of Gerbera daisies increased 17 percent by value and 13 percent by volume between 2003 and 2009.[3] Even more remarkable, California's production of tulips increased 84 percent by value and 63 percent by volume between 2003 and 2009.[4]

Still, over the past 20 years, California has seen generations of flower farms close their doors, give up and sell out due to the increasing import pressures, and this trend continues today. Making the trade preferences permanent in a Colombia FTA will compound the negative impacts affecting the California cut flower industry. In fact, according to the USDA, between 2002 and 2007, there was a 22.3 percent decline in the number of acres dedicated to cut flower production in the U.S.[5] At the same time, U.S. imports of cut flowers from Colombia have been steadily increasing in volume and value from 2002 to 2010. By value, U.S. imports from Colombia increased *89 percent* between 2002 and 2010. By volume, Colombia's exports of cut flowers have increased from roughly 1.96 billion flowers in 2002 to 2.54 billion flowers in 2010, an increase of *30 percent*. After a slight decline in the volume of imports in 2008 due to the U.S. recession, U.S. imports of cut flowers from Colombia have again continued to grow from 2008 through 2010. Comparing 2009 and 2010 figures shows that in 2010, in only one year, there was an increase in import volume of *10 percent*, and as the economy continues to improve, U.S. imports of cut flowers from Colombia will likely increase as well.

[3] USDA, National Agriculture Statistics Service, Floriculture Crops Summaries, (2005-2010).
[4] *Id.*
[5] USDA 2007 Census of Agriculture, at 3, available at: http://www.agcensus.usda.gov/Publications/2007/Online_Highlights/Fact_Sheets/nursery.pdf.

U.S. Imports of Cut Flowers from Colombia
2002-2010

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Quantity (in 1,000s)	1,966,732	2,016,343	2,155,800	2,253,974	2,341,192	2,390,455	2,288,588	2,305,907	2,545,076
Value (in $1,000s)	$289,553	$343,637	$415,001	$418,345	$448,578	$507,696	$501,552	$506,712	$548,429
AUV (in $s per number)	$0.15	$0.17	$0.19	$0.18	$0.19	$0.21	$0.22	$0.22	$0.18

Source: Compiled from USITC Dataweb.

Foreign nations, primarily Colombia, have replaced much of what California growers were providing and now supply an estimated 82 percent of cut flowers sold in the United States. This shows that Colombia is not only becoming more competitive under U.S. legislation, it has become dominant.

Today's California flower farms are certainly not the same as 20 years ago. Flower farmers today have to be extremely creative, resourceful and *careful* just to stay in business. Farmers are constantly innovating, because they recognize that the flowers they are planting today may be the same flowers that Colombia has on a plane destined for Miami or Los Angeles tomorrow. They have to stay ahead, they have to be smart and they have to avoid going head to head with import competition, because, while the access maybe "free," the marketplace is certainly not "fair."

Over $210 Million in Colombian Government Support to Its Flower Industry, 2005-09

A primary frustration with the Colombia FTA is not just the permanent duty free access, but the fact that the agreement does not ensure or safeguard a fair competitive market for domestic cut flower growers. When you combine the natural advantages of sunlight, climate, cost of labor and the price of land, with significant government support and subsidies, domestic farms simply cannot compete with the foreign imports. In addition, in Colombia, the government has explicitly told the Colombian flower producers that it will do everything it can to keep them competitive, including providing unfair subsidies, because many people rely on the flower industry for their livelihood. In 2009, the U.S. State Department reported that Colombian flower growers continued to receive Colombian government support in the form of incentives or subsidies, and, since 2005, this has amounted to roughly $210 million.[6] These subsidies continue today.

These varied programs reward producers either for hedging their exports, implementing sanitary programs, maintaining their workforce or for obtaining credits to support their activities.

Four specific programs benefitting Colombian flower growers are highlighted below:

[6] U.S. Department of State, Bureau of Economic, Energy and Business Affairs, *2009 Investment Climate Statement*, available at http://www.state.gov/e/eeb/rls/othr/ics/2009/117429.htm.

1. The **Exchange Rate Hedge Incentive** ("Incentivo de Cobertura Cambiaria"- ICC) which was created in 2004 to counter the negative effects of peso appreciation on exporters' cash flows by paying beneficiaries an amount equal to approximately ten percent of FOB exports hedged against exchange rate fluctuation.

2. The **Sanitary Measures Incentive** ("Incentivo Sanitario Flores y Follaje"- ISFF) began in 2007 as a direct subsidy to improve phytosanitary conditions and protect employment by paying producers approximately $3,514 for every hectare of cultivated flowers that fulfilled the "Integral Plague Management Plan" as long as they provided proof of retention of at least 80% of their workforce. A note on the Colombian Ministry of Agriculture (MOA) website notes that the government allotted $75 billion pesos for flower and banana growers under this program.

3. The **Salary Protection Program for Producers of Exportable Agricultural Goods** "Programa Protección Ingresos Productores de Bienes Agrícolas Exportables" was developed in 2008 to subsidize the purchase of hedging instruments by flower producers for up to 90% of their cost.

4. Finally, the **Special Credit Line for Exporters** subsidizes part of agricultural exporters' interest expenses derived from banking credits and fully guarantees the liabilities undertaken through the program.

Moreover, in January 2007, the Colombian Ministry of Agriculture (MOA) initiated another important program which indirectly benefitted Colombian flower growers, the "Agriculture Guaranteed Income Fund" ('Agro Ingreso Seguro- AIS'). This specialized program aimed to protect local producers and improve the overall competitiveness of Colombia's agricultural sector.

Four main programs constitute the AIS:

1. A special credit line to finance investments by all agricultural producers interested in modernizing and increasing their competitiveness, which guarantees an interest rate of DTF (Colombia's reference term-deposit savings rate) minus 2%, for up to fifteen years;

2. The "Rural Capitalization Incentive" ("Incentivo a la Capitalización Rural- ICR"), through which discounts are granted for credits issued to undertake new investments in infrastructure construction, acquisition of machinery and equipment, and water resource management, among other projects;

3. The "Irrigation and Drainage Program" ("Convocatoria Pública de Riego y Drenaje"), through which up to 80% of the costs of all projects destined to improve water resource management is covered by the MOA; and

4. The "Technical Assistance Incentive" ("Incentivo a la Asistencia Técnica"), which seeks to cover up to 80% of all technical assistance costs incurred by agricultural producers in

project and credit structuring, good practices implementation, adequate sanitary and phytosanitary management, and post-harvest management.

According to the U.S. State Department, in 2007-2008, the AIS program awarded approximately USD $450 million, and in 2009 the total budget amounted to approximately USD $280 million.[7] In December 2010, the Colombian government announced that it was going to restructure the AIS program to increase its support to small and medium size farmers who would be most affected by Colombia's pending free trade agreements.[8]

In late 2010, Colombian financial authorities investigated flower exporters who received millions of dollars in 2008 in loans to compensate the appreciation of the peso, and allegedly used the money to buy farmhouses in Ecuador and contribute to the primary campaign of former Agriculture Minister Andres Felipe Arias, who granted the subsidies. Subsequently, the Colombian government announced the immediate suspension of the payment of USD $27 million in subsidies to the country's flower sector, amid growing concerns about corruption and the mismanagement of subsidies and loans. Agriculture Minister Juan Camilo Restrepo said that the government will not release the subsidies, granted by the previous government of Alvaro Uribe just days before the end of that administration's term, until there is clarity concerning the allegations.

In summary, even with the pending subsidy scandal, Colombian government subsidies to the flower industry continue to help Colombian flower growers expand their industry and increase their exports to the U.S.

U.S. Assistance to the Colombian Flower Industry

Along with substantial support from their own government, the Colombian flower sector is supported by the U.S. government. The U.S. government has dedicated millions of dollars to aid for Colombia, primarily through the "Plan Colombia" program which began in 1999 and through other programs implemented by USAID and the State Department. Although exact amounts dedicated to the flower sector are difficult to ascertain, according to the U.S. State Department, "since 2007 nearly $570 million has been invested…in socio-economic and humanitarian assistance to Colombia."[9] A portion of this funding is directed to the cut flower industry under economic development and drug eradication programs. Moreover, the State Department notes that on November 17, 2009, the U.S. and Colombia signed a new multi-year Country Assistance Agreement, with first-year funding of nearly $212 million.[10]

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[7] U.S. Department of State, Bureau of Economic, Energy and Business Affairs, *2010 Investment Climate Statement*, available at http://www.state.gov/e/eeb/rls/othr/ics/2010/138050.htm.

[8] USDA FAS Gain Report, "Colombian Government Plans to Restructure the Agricultural Program," December 3, 2010, available at http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Colombian%20Government%20Plans%20to%20Restructure%20the%20Agricultural%20Program%20_Bogota_Colombia_12-3-2010.pdf.

[9] U.S. Department of State, Bureau of Western Hemisphere Affairs, "Background Note: Colombia," October 2010. Available at http://www.state.gov/r/pa/ei/bgn/35754.htm.

[10] *Id.*

Some notable assistance programs are administered by USAID including the School of Floriculture and the "Cultivating Peace" program. The "Cultivating Peace" program teaches flower farm workers, as well as their families and communities, to manage conflicts in a rational nonviolent way. The School of Floriculture provides economic opportunities and social support to Colombians displaced by violence. Participants receive classroom and hands-on training in flower cultivation and internships with a large flower farm. Most receive full time job offers after the internships. The program has benefited more than 2,000 families and helps increase exports. Regarding actual funding, in 2007 the President of Asocolflores announced that the American government made a strong endorsement (over $2 million), through USAID, to strengthen and expand these two programs.[11]

Additionally, in 2009, USAID initiated a new program to help Colombia successfully market its flowers in the U.S. and transport them through Miami. USAID created an alliance between Tecnovo, an NGO that provides support to people affected by armed conflict, and Grower-2-Buyer, a Miami-based company which distributes fresh-cut Colombian flowers to 174 wholesalers and 11 supermarket chains in the United States and Canada. As a result of this program, 100 stores in Maryland, Virginia, Washington, D.C., and Delaware carried the USAID-branded products.[12]

Fighting for a Way Forward

California's flower farmers are a resilient and creative group and they continue to make a significant effort to help level this playing field. A major cooperative effort to improve floral transportation in and out of California has been underway for the past two years, and CCFC continues to work on gaining federal support for this innovative system.

Due to the low volumes of flowers and decreased number of flower farms, farmers are currently developing a plan to reduce transportation costs by combining their individual flower shipments to fill more trucks. Working together, growers will employ a third party logistics freight company to coordinate their flower volume in the most efficient and cost productive way. This grower cooperation would allow the ability to ship more full truckloads and eliminate the trucking duplicity that exists today which currently drives up prices. These reductions in overhead costs associated with multiple carrier companies will allow California's growers to compete with the truck rates out of Miami and Los Angeles, while getting more California-grown flowers to more people everywhere and in a more environmentally friendly method. Limited by the ability to "invent" new flower varieties and having transitioned from every profitable flower variety currently available, California's growers continue to get creative with

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[11] *See* U.S. Embassy Bogota, "En Que Va El Apoyo: Success Stories of U.S.-Colombia Cooperation," June 7, 2006, available at http://bogota.usembassy.gov/media/success-stories/wwwfpce002.pdf. *See also* USAID, "Telling Our Story: Colombia-Flower Industry Gives Jobs to Displaced." Available at http://www.wffsa.org/pdf/Robin/netWORK/usaidasocolflores.pdf. (Last updated July 6, 2009). *See also* Ernesto Velez, "Colombian Floriculture**:** A Case of Competitive Entrepreneurship, With Social and Environmental Responsibility, in a Country Under Difficult and Changing Conditions," March 2007, available at http://aggie-horticulture.tamu.edu/ellisonchair/media/ErnestoVelez-paper.pdf.

[12] *See* USAID Press Release, "Flower Sales Help Cultivate Peace in Colombia," February 13, 2009, available at http://www.usaid.gov/press/releases/2009/pr090213.html. *See also* "Love Bunch" website, available at http://www.love-bunch.com/.

any and all controllable expenses possible, even if that means sharing trucks with competing California flower farms.

The FY 2010 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Conference Report, urged the USDA to “use all available resources to support domestic flower growers in their efforts to develop an efficient and environmentally friendly transportation, storage, and distribution system to better compete with foreign producers.” CCFC’s endeavor to create a transportation hub is a direct reflection of the language in that report. This proposed transportation system has now been endorsed by the U.S. Chamber of Commerce, the California State Floral Association, and the Society of American Florists.

On behalf of the 225 flower farms in California, the CCFC continues to seek federal attention and support for its proposed transportation center to help mitigate the current and future losses experienced due to Colombian cut flower imports. This transportation center will level the playing field before the passage of the Colombia FTA to ensure that U.S. consumers continue to have access to a domestic supply of fresh cut flowers.

In closing, we would like to thank the USDA for their continued assistance and grants as well as the California Congressional Delegation for their bipartisan support over the past three years. Finally, we want to thank the Ways and Means Trade Subcommittee for giving us the opportunity to present our views today. We hope that we can work together to ensure that the Colombia Free Trade Agreement does not eradicate this important domestic industry.